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One-off wealth taxes: theory and evidence

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Abstract

In periods where the national public debt has grown rapidly beyond 'normal' levels, the idea of drawing on the stock of national private wealth in order to pay down that debt, whether in whole or in part, has gained currency. 'Capital levies' or 'one-off wealth taxes' involve a one-time charge based upon wealth, normally assessed across a broad range of asset classes (such as savings, investments, property and pensions). The goal of this paper is to outline, and to expand upon, the evidence base available to policymakers contemplating one-off wealth taxes. It outlines key features of one-off wealth taxes, relative to somewhat more commonplace recurring wealth taxes. Using a comparative case study methodology, the paper analyses historical examples of one-off wealth taxation, which have attracted relatively little scholarly attention to date. It explores practical details of tax design and tax administration, as well as aspects of the political and economic context in which these measures were introduced. In so doing, it identifies factors that make one-off wealth taxes more or less likely to succeed in raising revenue while also minimising any negative social and economic consequences.

KEYWORDS

capital levy, global financial crisis, history of taxation, public debt, wealth tax

JEL CLASSIFICATION

H24, D31, N44

1 | INTRODUCTION

In periods where the national public debt has grown rapidly beyond 'normal' levels, the idea of drawing on the stock of national private wealth in order to pay down that debt, whether in whole or in part, has gained currency. In the 20th century, the enormous fiscal costs of the First and Second

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World Wars (WWI and WWII) prompted calls for capital levies in order to offset wartime expenses. Similar proposals were advanced in the wake of the global financial crisis, and are once again being mooted as a potential response to the COVID-19 pandemic. The idea of a one-off levy on capital – which might also be described as a one-off wealth tax – has been championed by a broad range of commentators. From Schumpeter (1918), Pigou (1920), Keynes (1940) and Hayek (1940), through to the Reform Party incarnation of Donald Trump,¹ the policy has garnered support from individuals of diverse political leanings and intellectual backgrounds. The rationale for such taxes is presented not just in fiscal terms, as a source of revenue, but also as a moral imperative – if we are all in this together, then the broadest shoulders must bear the biggest burdens.

One-off wealth taxes have admittedly been much more widely debated than deployed. In the wake of WWI and WWII, several countries introduced capital levies, with varying degrees of success, but they were far from universally adopted. The global financial crisis was deemed by some commentators to constitute a comparable historical moment – justifying a comparable course of action – though in the end, only a handful of countries pursued such policies in earnest, and even then in a much more limited fashion than the capital levies of the past. Is this a reflection of the fact that the history of capital levies ‘is not on the whole an encouraging one’?² Or can such charges play a part in alleviating the fiscal predicament in which many countries find themselves today, with the COVID-19 pandemic buffeting public finances that had barely recovered (if they had recovered at all) from the financial crash and the decade of crises that followed it?

The goal of this paper is to outline, and to expand upon, the evidence base available to policymakers considering one-off wealth taxes. It seeks to address gaps in existing surveys of one-off wealth taxes or capital levies, many of which date back to the middle of the 20th century.³ Of more recent analyses, the paper by Eichengreen (1989) on the capital levy in theory and practice has been particularly influential in policy circles: when capital levies were broached as a potential response to the global financial crisis, it was to this survey that the International Monetary Fund (IMF) turned, in its October 2013 Fiscal Monitor, concluding that the historical record ‘suggests that more notable than any loss of credibility was a simple failure to achieve debt reduction, largely because the delay in introduction gave space for extensive avoidance and capital flight – in turn spurring inflation’.⁴ The economist Michael Keen was even more forceful in an IMF blogpost a month later, citing Eichengreen to argue that ‘the experience of capital levies’ shows that they have been ‘very distorting’ and ‘rarely raised much revenue’.⁵ However, Eichengreen’s research focused almost entirely on post-WWI capital levies, overlooking post-WWII measures in Europe altogether, many of which generated markedly more revenue (and less hostility) than their precursors. This paper seeks to redress the balance, by expanding our understanding of this more successful generation of capital levies. Further, it also examines more recent one-off taxes on (certain categories of) wealth, implemented in Europe in the wake of the global financial crisis – which, though modest in ambition when compared with the post-war levies of the 20th century, nevertheless share certain characteristics in common with them.

To this end, the paper is divided into three main sections. The first part explores what the key features of a one-off wealth tax are, and how such measures compare with more conventional (and more widely discussed) recurring wealth taxes.⁶ By looking at the distinctive economic, administrative and normative characteristics of one-off wealth taxes, we can better assess when they might offer an appropriate way of raising revenue (and/or combating inequality). The second part of the paper surveys existing literature on capital levies, which primarily focuses on examples of wealth taxes taken from the immediate aftermath of WWI and WWII. Noting that post-1945 measures have received less attention in the literature to date, it includes two detailed case studies of one-off wealth taxes

¹ Hirschkomr, 1999.

² Hicks, Hicks and Rostás, 1941.

³ Rostás, 1940; Hicks et al., 1941; Carroll, 1946; Robson, 1959.

⁴ IMF, 2013.

⁵ Keen, 2013.

⁶ See, for example, Piketty (2014), OECD (2018) and Saez and Zucman (2019).

from this era, selected to illustrate both comparatively successful and comparatively unsuccessful policy initiatives (viewed in terms of revenues raised, effective administration, and the judgement of contemporaries). The third part of the paper surveys policy debates and initiatives in the wake of the global financial crisis, examining three measures that exhibit some of the characteristics of one-off wealth taxes.

From a methodological perspective, this paper deploys both a comparative case study approach and within-case process tracing, documenting the social, economic and political backdrop to the introduction of various one-off wealth taxes, their connections to other contemporaneous legislative initiatives, and the specifics of policy design.⁷ The reasons for doing so are threefold. First, the success or failure of one-off wealth taxes hinges upon questions of timing, political credibility and detailed policy design within a particular set of historical circumstances. While this is true of all taxes to some degree, these factors are particularly important in the case of one-off wealth taxes, and they can be most readily evaluated through detailed historical investigation. Secondly, as one-off wealth taxes have not received much scholarly attention to date, exploratory historical analysis can play an important role in identifying variables of interest for further comparative analysis. Finally, there are major obstacles to using more quantitative techniques. Given the rarity of one-off wealth taxes, there are limited cases available for study; given the exceptional circumstances in which they have been deployed, there are limited data points available for counterfactual inference; moreover, the reliability (let alone comparability) of economic data available in many of these cases leaves much to be desired. In light of this, comparative case study analysis and process tracing offer an alternative method for identifying correlates of success and failure, both in terms of aspects of policy design and implementation, and in terms of underlying features of the political, social and economic context in which such policies are pursued.

2 | ONE-OFF AND RECURRING NET WEALTH TAXES COMPARED

One-off wealth taxes share many characteristics – and challenges – in common with annually recurring wealth taxes. Both fix a tax liability based upon wealth, as measured across a broad range of asset classes; both thus encounter challenges around valuation, liquidity and the precise specification of the tax base.⁸ However, there are important differences in how they operate, when viewed from the perspective of economic theory, tax administration, politics and ethics. The objective of this section is to survey these differences, and to outline how they might affect the attractiveness of both policy alternatives – relative to each other, as well as relative to other tax policy options.

2.1 | Economic issues

From the perspective of economic theory, a well-executed one-off wealth tax has much to recommend it. If we are concerned about taxes distorting the decisions of economic actors – making people consume, work, save, invest and produce differently (and often less efficiently) to how they would choose to act in a tax-free world – then an unheralded one-off wealth tax is highly attractive. The fact that the tax liability for such a charge is computed on the basis of a one-time assessment means that taxpayers cannot change how much they pay by reconfiguring or consuming their assets after this assessment date. Provided the tax is unheralded, or the assessment could be backdated to a point before taxpayers became aware of its impending introduction, then the tax should not alter behaviours prior to its announcement either. Clearly, a one-off wealth tax means that some people will have less wealth with which to pursue their various ends than would otherwise have been the case, and it will correspondingly reduce the yield on other taxes that might have been levied on that wealth and its

⁷ George and Bennett, 2005; Collier, 2011.

⁸ Chamberlain, 2021; Daly and Loutzenhiser, 2021; Loutzenhiser and Mann, 2021.

various uses (such as consumption or estate taxes), but it should not alter the incentive structure on the basis of which economic decisions are made.

The potentially distortionary effect of a one-off wealth tax is not, however, merely a technical matter depending solely upon the timing of the tax assessment relative to its public announcement (official or otherwise). It also depends upon taxpayer expectations that such a levy is genuinely a one-off, not to be repeated. If the introduction of a one-off wealth tax means that taxpayers believe a similar measure is more likely to be deployed again by future policymakers, then it will distort behaviours, discouraging the accumulation of taxable wealth and prompting high net-worth individuals to consider changing their tax residency. (By the same token, if the introduction of a one-off wealth tax means that taxpayers anticipate that such a levy is *less* likely to occur in the future, or that it renders other tax rises unnecessary, then it could reduce distortions in behaviour arising from expectations around future tax policy changes.) Certainly, the fact that the state has invested effort in designing such a tax, resolving issues around valuation, liquidity, collection and enforcement, means that taxpayers might reasonably conclude that future governments will find it easier to repeat a one-off wealth tax, or to introduce a recurring wealth tax that uses similar legal and administrative methods. As has happened so often in the history of taxation, temporary measures may end up being extended beyond their intended lifespan, potentially even indefinitely. Why, then, should taxpayers trust politicians?

An analogy might be drawn with the credibility challenges facing monetary policymakers. Crudely put, democratic governments have incentives to stimulate the economy in the here and now, causing inflationary pressures and amplifying the effects of the business cycle over the longer term. Moreover, firms and workers will anticipate these decisions, demanding higher prices for their output upfront, and thereby negating any stimulus effect – resulting in both inflation and economic stagnation. In the past, problems with the perceived credibility of future promises in monetary policy were resolved through a range of institutional innovations and commitment mechanisms – in particular, the creation of independent central banks with inflation-targeting mandates and control over interest rates.⁹ It is hard to imagine a democratically elected government adopting such a hands-off approach to tax policy.

On closer examination, however, the credibility problem confronting a one-off wealth tax is not as problematic as it might initially appear. To begin with, it is far from clear whether the analogy to monetary policy holds, because it is far from clear that democratic governments face an incentive to tax wealthy people. While, in theory, redistributive taxes should be favoured by rational median voters, as the recent history of wealth taxes reveals, tax rises – even tax rises on the wealthy – are often unpopular, and democratically elected governments often face pressures to cut rather than raise taxes.¹⁰ Even where people claim they are in favour of taxing the rich, their voting behaviours suggest that they are concerned about the broader economic implications of such policies.¹¹ It is noteworthy that, in the case studies of recent ‘temporary’ wealth taxes discussed later in this paper, while both the Icelandic and Irish governments extended the temporary charges they had introduced, both faced a backlash over this move and both taxes expired shortly afterwards. Democracy might thus act as an institutional check *against* repetition of a one-off wealth tax (or perpetuation of a temporary tax), although this depends upon voters remaining sceptical of the desirability of increasing the tax burden on wealthier members of society, and on politicians taking heed of these voters. There are some grounds for believing that these attitudes are beginning to shift in developed democracies today;¹² moreover, if politicians were to override sceptical voters and levy a one-off wealth tax once, they may still be viewed as more likely to do so again in the future.

Credibility problems might also diminish if the government can advance a clear justification for a one-off wealth tax, highlighting its exceptional nature.¹³ Approaching the credibility problem from

⁹ Kydland and Prescott, 1977; Blackburn and Christensen, 1989; Balls, Howat & Stansbury, 2018.

¹⁰ Graetz and Shapiro, 2011; Perret, 2021.

¹¹ See also Iversen and Soskice (2019).

¹² Perret, 2021.

¹³ Adam and Miller, 2021.

the perspective of common sense rather than formal modelling, if the circumstances that justify a one-off wealth tax are clearly one-off in nature, then it would be irrational to expect the policy to be repeated in ordinary times. Surveys of post-war capital levies highlight no significant issues with the credibility of government claims that such levies were one-offs,¹⁴ not least because it was manifestly obvious to taxpayers that these charges were related to the extraordinary costs of conflict, which future governments would strive (if not always successfully) to avoid. By contrast, if a country levied a one-off wealth tax to fund everyday public spending – such as the policy proposed by Donald Trump in the late 1990s, to pay off the US public debt that had mounted rapidly following the self-financing tax cuts of the Reagan years – then it would be perfectly rational to assume that this levy might be repeated whenever governments failed to control public spending or raise adequate tax revenues (or both). The fiscal costs of dealing with a once-in-a-century pandemic – funding for additional healthcare provision, furlough schemes, emergency support for households and businesses, as well as the shortfall in ordinary tax revenues – seem to be closer to the war example than the Trump example. Rational actors should not interpret precedents that governments set in extraordinary circumstances as indicative of how policymakers will behave in ordinary times. However, it also follows that policymakers interested in offsetting the extraordinary costs of the COVID-19 pandemic through a one-off wealth tax should resist the temptation to levy a little extra on the side in order to pay down ordinary debt levels, as this may compromise their credibility.

In contrast to a credible one-off wealth tax, a recurring wealth tax could have a far larger impact on the behaviour of taxpayers. In order to minimise their wealth tax liabilities, wealthy individuals might opt to alter the composition or location of their asset holdings, to consume rather than to save and invest, to exploit exemptions and evasion opportunities, or simply to emigrate.¹⁵ Admittedly, many (though not all) of these problems could be mitigated by a well-designed tax – for example, one with a global approach to taxable asset wealth, sensible residence definitions and suitable exit provisions.¹⁶ However, any tax-motivated increase in avoidance, evasion or exit, or decrease in wealth accumulation rates, would reduce the amount of revenue that a recurring wealth tax would generate. Moreover, it would affect the yield of other taxes besides, such as charges on capital gains and income, while also having a negative effect on the wider economy, potentially reducing efficiency, investment and employment. In theory at least, none of these behavioural responses should apply in the case of an unheralded one-off wealth tax, assuming that taxpayers receive no warning about its introduction, and that they believe government assurances that it is a ‘one-off’.

One implication of this is that one-off wealth taxes can be levied at higher rates, and thus raise more money in the short term, than their recurring counterparts. Whereas, with a recurring wealth tax, the government’s desire for more revenue must be offset against increasing tax resistance as tax rates rise, as well as the risk of wider economic fallout as wealthy people choose to relocate themselves and/or their assets, these considerations do not act as a constraint on one-off wealth taxes. Indeed, historically, some one-off wealth taxes have been levied at extremely high levels – for example, the West German *Lastenausgleichsabgaben* (burden-balancing taxes), discussed later in this paper, were levied at a rate of 50 per cent.

This is not to say that there are no economic constraints on the amount that a one-off wealth tax can feasibly raise (to say nothing of the political constraints that apply in democratic societies). Clearly, the transfer of assets from the private to the public sector can have serious implications for the trajectory of growth in and of itself. Pursuing such a policy during an economic downturn might be particularly unwise: as with any net increase in the tax burden, it would reduce households’ willingness and capacity to spend, exacerbating the shortfall in aggregate demand. (Admittedly, were it introduced as part of a broader revenue-neutral rebalancing of the tax system, a one-off wealth tax might boost

¹⁴ Robson, 1959; Eichengreen, 1989.

¹⁵ Adam and Miller, 2021; Advani and Tarrant, 2021.

¹⁶ Chamberlain, 2021.

TABLE 1 Characteristics of one-off wealth taxes and recurring wealth taxes compared

Recurring wealth tax	One-off wealth tax
Tax based on (reasonably comprehensive) measure of taxpayer wealth	Tax based on (reasonably comprehensive) measure of taxpayer wealth
Tax liability based upon recurring (usually annual) valuations of wealth	Tax liability based upon one-off valuation of wealth
Permanent feature of the tax system to raise revenues for ordinary spending	Unusual feature of tax system, generally introduced in response to extraordinary fiscal circumstances
Normal tax design processes and public debates	Introduced rapidly with minimal public debate and minimal notice to taxpayers, potentially even based upon wealth assessed as at a past date
Taxpayers believe the wealth tax will recur	Taxpayers may or may not believe the one-off tax will be repeated
Lower tax rates needed to limit behavioural response	Higher tax rates possible due to lack of behavioural response (if taxpayers believe it will not recur)
Annual payment	Payment often phased over multiple years, to minimise liquidity issues and wider market impacts

demand, falling as it does on wealthier individuals who tend to have a lower marginal propensity to consume.) Furthermore, as such a tax is based upon wealth as a whole, it might prompt many taxpayers to liquidate a range of financial instruments, residential property and other assets in order to fund their tax liabilities. This sell-off could depress asset prices and damage market confidence, potentially precipitating a financial crisis. Unsurprisingly, then, the more successful historical examples of one-off wealth taxes have contained provisions to avoid such scenarios.¹⁷ These could include payment deferrals, payment by instalment, and payment in kind (for instance, the transfer of assets into a publicly managed wealth fund, rather than their liquidation to pay a tax liability).¹⁸ All of these measures could also help to resolve liquidity issues for assets that are difficult to dispose of rapidly and/or partially.¹⁹

By way of summary, Table 1 highlights the key characteristics of a one-off wealth tax when compared with an annually recurring wealth tax. While both types of tax are predicated on a more or less comprehensive measure of wealth, and both may involve payments made over a number of years, a one-off wealth tax has a once-only assessment date, which (if unheralded, and deemed credibly one-off) limits scope for behavioural responses that are distortionary and that reduce tax yields. This means that they can be levied at higher rates than recurring wealth taxes.

2.2 | Tax compliance and administration

Aside from the direct financial cost of a wealth tax, one of the most burdensome aspects of such a charge concerns valuation. For many assets, prices will be difficult to determine and open to dispute: no two properties are identical in all respects, for example, and valuing works of art or private businesses is notoriously difficult. Even for assets such as financial instruments or cash deposits, where the assets are fungible and up-to-date price information is available, this information must still be compiled and disclosed by the taxpayer, unless it can be automatically retrieved by the tax authority. Furthermore, irrespective of whether tax authorities or taxpayers perform that initial valuation, in many cases there

¹⁷ Robson, 1959.

¹⁸ The *Lastenausgleichsfonds* managed receipts from the West German one-off wealth tax, albeit with more of an emphasis on disbursing funds than long-term wealth management (Hughes, 1999; Hauser, 2011). On the topic of how emergency support for businesses during the COVID-19 pandemic might capitalise a public wealth fund, see Lonergan and Blyth (2020).

¹⁹ Loutzenhiser and Mann, 2021.

will be duplication of effort as the other party seeks to audit this assessment. Disputed valuations may lead to complex legal cases, which could prove very costly to resolve for taxpayers and governments alike.

For annually recurring wealth taxes, these valuation exercises need to take place periodically – potentially every year – imposing substantial costs on all concerned. By contrast, with a one-off wealth tax, the costs of valuation are also a one-off. This is significant because a higher-rate one-off wealth tax that is paid in instalments could generate a similar pattern of revenue flows to a lower-rate recurring wealth tax, at least over the short term. The ratio of compliance costs (for taxpayers and governments alike) to revenue raised would thus be lower in the case of the one-off wealth tax than the recurring wealth tax, over this limited time horizon. A one-off wealth tax would also allow time for tax authorities to challenge and investigate valuations – which might also be preferable for taxpayers, who would only need to deal with enquiries on a single valuation, rather than face a series of unresolved challenges to annual valuations.

However, if updating existing valuations for wealth tax purposes were to prove substantially less burdensome than creating them in the first place, then any compliance cost advantage would correspondingly diminish. Similarly, it might be inefficient for a government to invest in the new policies, processes and systems needed to assess the wealth of individual taxpayers, if this investment were to be used only once. Finally, taxpayers may devote more time and money to fighting one-off valuation disputes, rather than disputes that would need to be fought anew every year.

Furthermore, fixing a tax liability to be paid in instalments, as opposed to recalculating that liability on a regular basis, will mean that risk (both upside and downside) will be transferred to the taxpayer. One-off wealth taxes could see taxpayers paying well over the odds for the ownership of assets whose value subsequently plummets, or paying less than they would do under a recurring wealth tax in the event of subsequent asset price surges. For volatile assets and/or risk-averse taxpayers, fixing the tax liability upfront in this way might prompt taxpayers to liquidate assets prematurely, or adopt hedging strategies to mitigate these risks. Were many taxpayers to behave in this way simultaneously, a sufficiently large one-off tax charge could trigger a crash in asset prices.

2.3 | Politics

Tax-raising policies provoke opposition, and rival politicians may seek to capitalise on this opposition by promising to lower tax rates, or repeal unpopular policies outright. While a crude rational choice model of voting behaviours might lead one to conclude that recurring wealth taxes are likely to elicit widespread popular support – because the overwhelming majority of people are not, and will never be, wealthy enough to pay them – an examination of recent fiscal history suggests otherwise.²⁰ Many developed democracies have abolished their wealth taxes over the last four decades, citing both practical and normative objections.²¹ In some cases, wealth taxes were repealed or suspended only to be reintroduced, and then subject to renewed political attack.

This matters because a net wealth tax focused on the very wealthiest, levied at a sufficiently low annual rate to avoid a taxpayer exodus, requires time in order to achieve its distributional and revenue-raising goals. Recent experience suggests that a durable political consensus around such a policy will prove difficult to achieve. Introducing a wealth tax in the absence of such consensus means that it is likely to become a political football, subject to an ongoing cycle of reform, repeal and reintroduction. This undermines the predictability of the tax system, increases complexity for taxpayers and tax authorities alike, while also multiplying opportunities for investment and accounting strategies that aim at circumventing the tax charges in question.

²⁰ Banting, 1991; Lehner, 1999; Chatalova and Evans, 2013; OECD, 2018.

²¹ Perret, 2021.

By contrast, one-off wealth taxes are less vulnerable to changes in the political climate, and thus more likely to achieve their revenue and distributional objectives. The liability is fixed upfront, so political mobilisation and lobbying by taxpayer groups will be of limited value. True, a future government could conceivably cancel instalment payments that were still outstanding, though this would prove both expensive for the government and unpopular among those who had paid their share sooner – although the fate of Lloyd George’s land taxes in 1920 shows that a sufficiently unpopular tax can end up being refunded.

Perhaps the biggest political obstacle to the introduction of a one-off wealth tax is the fact that it is politically costly, yet some of the fiscal benefits that it generates will redound to the credit of future governments – assuming annual payments extend across at least one electoral cycle, and/or the funds are used to pay down debts. Why expend political capital in the pursuit of additional revenue (or lower debt levels) for one’s successors? Yet the same objection could be levelled against any significant revenue-raising measure.²² The time-bound nature of a one-off wealth tax means that revenues are likely to fall primarily to the tax-introducing government, depending on the timing of the tax and the length of the electoral cycle, as well as on factors such as inflation and any interest charges applied to tax liabilities paid by instalment.

2.4 | Normative considerations

Many of the normative justifications for, and arguments against, recurring net wealth taxes apply equally to one-off wealth taxes. However, one area where the normative implications of the two approaches differ quite dramatically is with respect to their treatment of different generations. Intergenerational justice is one argument frequently advanced in favour of taxing wealth better, whether through wealth taxes or other means.²³ At any given point in time, the older generation is likely to be wealthier, on average, than their younger counterparts – the product of a longer period of time in which to accumulate wealth, including unspent legacies from previous generations. Such wealth inequalities are not inherently inequitable, assuming young people enjoy similar opportunities to accumulate wealth over their own lifetimes. Therefore, although a recurring wealth tax would fall disproportionately on the shoulders of older taxpayers, it would not necessarily alter the distribution of resources between generational cohorts – assuming today’s poorer younger people go on to become tomorrow’s wealthier older people, both generations will be affected by the tax in turn.

A one-off wealth tax, by contrast, will disproportionately be paid by today’s older people relative to today’s young people.²⁴ For it to be defensible on equity grounds, therefore, these older people must have enjoyed a benefit that is not available to today’s younger generation (and future younger generations), at least not to the same extent. This can occur when the older generation disproportionately reaps the returns from some one-off use of collective resources: for example, a one-off privatisation of public assets such as housing or state-owned enterprises; a one-off depletion of natural resources and/or the sustainability of the biosphere; a one-off increase in public debt to rescue the economy following a pandemic or a financial crisis; a one-off increase in the money supply to lower interest rates and/or to finance (directly or indirectly) an unfunded expansion in public spending, which pushes up the value of assets disproportionately owned by older people. Clearly, today’s younger people may avail themselves of these one-off uses of collective resources too (directly in their own right, or else via private inheritances and the more diffuse public legacies of these decisions). Nevertheless, if they participate in them to a lesser degree than their older, wealthier counterparts, and/or if they have to bear a disproportionate share of remediation costs associated with

²² For an insightful discussion of obstacles to tax reform in the UK context, and potential solutions, see Tetlow et al. (2020).

²³ Ackerman and Alstott, 1999; Select Committee on Intergenerational Fairness and Provision, 2019; Forman and Mann, 2020.

²⁴ Advani, Hughson and Tarrant, 2021.

granting these benefits (such as replenishing public housing stock, repaying public debts, or restoring the natural environment), then they are still relatively disadvantaged.

A one-off charge could also be appropriate in cases where new benefits are ongoing, to deal with the problem of transition. In principle, today's younger people could themselves enjoy any new recurring public spending that benefits today's older generation – such as more generous state pension entitlements, or an increased standard of elderly social care – as they themselves age, removing any intergenerational inequity. However, if those enhanced benefits are funded out of increases in taxes or decreases in public services and social transfers enjoyed by young people, then an intergenerational inequity would arise, as the older generation are enjoying a benefit the costs of which are being transferred to younger people, costs that the older generation did not pay when they themselves were young. (Funding such benefits through debt rather than spending cuts or tax rises would have a more limited impact on today's young people, but could still impose costs on future generations, subject to the relationship between interest rates and growth.) Under circumstances where younger people are already bearing costs that older people did not bear when they themselves were young – if, for example, working-age social spending (such as child benefit and income support) is reduced, if working-age taxes (such as National Insurance contributions in the UK) are increased, if working-age tax breaks (such as tax relief on pension contributions) are cut – then, on normative grounds, a one-off tax on older generations might be preferable to a recurring tax that today's younger people would themselves pay when they become old.

Obviously, taxation and spending are not the only metrics deserving of consideration when we assess what the older generation leaves to (or takes from) the younger generation. Private wealth, public assets, physical infrastructure, more advanced technology, higher productivity, longer life expectancy, greater happiness, stronger social cohesion and a habitable biosphere are all important as well, albeit not all of these factors are easily quantifiable. Furthermore, intergenerational equity is not the only lens through which we might assess the normative implications of wealth taxation. Wealth taxes might address unjust inequalities between people of different gender, ethnicity, talent, character, home environment and socio-economic backgrounds, as well as people of different generations. Principles other than a highly transactional idea of equity might be advanced in favour of wealth taxes (for instance, principles involving duties to more vulnerable and less fortunate members of society). Nevertheless, insofar as we are concerned with intergenerational justice, and insofar as a transactional sense of fairness between generations is appropriate, then a one-off wealth tax has markedly different properties to a recurring wealth tax (or other recurring taxes that fall disproportionately on older people, that younger people will themselves pay as they age).

3 | CAPITAL LEVIES IN THE 20th CENTURY

Both WWI and WWII inspired policymakers to experiment with one-off wealth taxation. Many governments involved in the fighting had incurred unprecedented levels of debt in order to fund military efforts. Meanwhile, much private-sector wealth had been consumed in the conflict – whether requisitioned by government or destroyed by the enemy. What private wealth remained was even more arbitrarily distributed than in the past: chance played a large part in determining whether your house had been shelled, whether your town had found itself on the frontline, whether your factory or warehouse had been repurposed for military ends, ransacked, and/or razed to the ground.

Under these circumstances, to many people, one-off wealth taxes seemed to offer both an equitable and an effective way of funding the reconstruction effort. Following WWI, one-off wealth taxes were levied in countries including Austria, Czechoslovakia, Hungary and Italy; Italy even repeated the policy in 1937, this time to arm itself in anticipation of future conflict.²⁵ Finland instituted a one-off wealth tax in 1941, following the first Russo-Finnish war. In the aftermath of WWII, capital levies

²⁵ Rostás, 1940; Eichengreen, 1989.

TABLE 2 Design features of post-WWII levies

Country	Legislation date	Wealth assessed as of	Rate(s)	Period of payment
Austria*	07/07/1948	01/01/1948	1.5% per year	8–22 years
Belgium	15/10/1945	09/10/1944	5%	7 years
Denmark*	12/07/1946	1946–47 fiscal year	up to 10%	1 year
Finland	05/05/1945	1945 fiscal year	2.4%–21%	5 years
France*	15/08/1945	04/06/1945	3%–20%	4 years
West Germany	14/08/1952	21/06/1948	50%	30 years
Italy	08/03/1947 and 11/10/1947	28/03/1947	6%–60%	7 years
Netherlands*	19/09/1946 and 11/07/1947	01/01/1947	4%–20%	2 years

Note: Asterisked countries also levied a tax on incremental increases in wealth over wartime.

Source: Adapted from Robson (1959).

played a role in the reconstruction efforts of Belgium, Denmark, Finland (again), France, Germany, Japan, Luxembourg, the Netherlands (twice) and Norway.²⁶

In reality, many of these levies proved to be less effective than their supporters had hoped. The post-WWI levies in Germany and Austria triggered substantial capital flight.²⁷ In 1920s Hungary, the levy provoked opposition from a coalition of big landowners and smaller-scale farmers, and was rapidly repealed. The Czech law of 1920 only raised around half of the tax receipts originally anticipated.²⁸ The Japanese levy of 1946–47, which primarily fell upon the richest two or three centiles of Japanese society, was more successful, raising over 10 per cent of national income in the year that it was collected.^{29,30}

Reviewing this record in 1989, Eichengreen (1989, p. 37) concluded that ‘successful levies [can only] occur in cases like post-WWII Japan, where important elements of the democratic process are suppressed and where the fact that the levy was imposed by an outside power minimized the negative impact on the reputation of subsequent sovereign governments’. However, Eichengreen’s conclusion is skewed by his focus on cases from the inter-war era – Japan is the only post-1945 case study included in his analysis. Actually, most of the aforementioned post-1945 capital levies were substantially more effective at raising revenue, achieving redistribution, countering inflation and financing reconstruction than their inter-war counterparts. As Robson (1959, p. 33) pointed out in an earlier survey of these taxes, ‘a comparison of experience in these two periods reveals a striking contrast between the smoothness and success with which, on the whole, the [post-WWII] levies have been administered and the major difficulties encountered in the earlier period’.

This is not, however, to imply that the post-WWII levies can be considered as a homogeneous group. As Table 2 indicates, they differed dramatically in terms of their design. Rates ranged from an introductory rate of 2.4 per cent in Finland up to a top rate of 60 per cent in Italy. (The Austrian tax was unusual in that it fixed the tax base as at a one-off assessment date, and then charged a low recurring annual rate on that amount, for a period of years that varied dependent on taxpayer wealth.) Payment

²⁶ Carroll, 1946; Robson, 1959.

²⁷ Rostás, 1940; Eichengreen, 1989.

²⁸ Rostás, 1940.

²⁹ Shavell, 1948.

³⁰ The Japanese levy also contained an interesting mechanism for discouraging undervaluation of assets in tax returns: the government could purchase any asset it believed to be undervalued at the price that its owner had specified in their self-assessment.

was generally spread over multiple years – as long as 30 years in the case of Germany – though in the Danish case payment was required upfront. Most of the levies specified a wealth assessment date in the past, reducing the risk of capital flight as a direct response to the policy announcements. In several cases, this retrospective assessment date corresponded to a previous currency reform, providing a reference point for valuation purposes for taxpayers and tax authorities alike. All countries introduced some form of tax-free threshold, exempting poorer households from the levy; many also adopted a progressive rate structure, imposing proportionately higher charges on the very wealthiest members of society. In several cases, these levies were supplemented by additional charges on incremental increases in wealth over wartime.

Unsurprisingly, given the diverse designs of these taxes, and the diverse social, economic and political circumstances in which they were introduced, these taxes produced dramatically different results. According to the estimates made by Robson (1959), yields from post-war levies ranged from relatively modest sums in Austria (3.4 per cent of initial year national income) and France (4.7 per cent), despite both countries also implementing an additional charge on incremental increases in wealth over wartime, to substantial amounts in Germany (71.4 per cent). However, it should be stressed that quantifying the fiscal and economic effects of these taxes is not a straightforward matter. The pace of post-war inflation meant that what people were supposed to pay was generally worth substantially less by the time they were supposed to pay it, and sometimes less still by the time payment was actually made (taking into account the challenges of post-war tax assessment, administration and enforcement). Moreover, the fiscal impact of individual taxes cannot be considered in isolation: a tax might raise a substantial sum, but reduce the yield of other present and future taxes (for instance, via fiscal expatriation, or by discouraging saving and investment), such that their net yield is negative. Finally, yield is not the only measure of success: tax policies might also aim at achieving particular economic, social and distributive objectives, as well as cultivating broader public confidence in both the tax system and the government.

Consequently, in order to evaluate the relative success and failure of these different policy measures, and to understand the factors responsible for these outcomes, detailed case study analysis is invaluable. Unfortunately, a comprehensive comparative survey of post-war levies is beyond the scope of a single paper – and, as will be discussed below, these data may prove of only limited value to policymakers contemplating such levies today, given the radically different circumstances in which developed democracies presently find themselves. In light of these limitations, this paper provides a preliminary analysis of two post-war cases: the French *Impôt de Solidarité Nationale* (ISN) of 1945, and the West German *Lastenausgleichsgesetz* of 1952. These two cases have been selected to correct the relative neglect of post-WWII levies in the existing literature, when compared with post-WWI taxes.³¹ Moreover, these two cases differ in a number of interesting respects. The ISN was comparatively modest in scope, with one of the lowest tax rates and shortest payment periods of any of the post-WWII levies, generating a correspondingly small quantity of revenue, whereas the *Lastenausgleichsgesetz* was the most ambitious of these one-off wealth taxes. The design of the ISN was comparatively complicated, incorporating both a progressive rate structure and an additional charge on incremental wartime wealth gains, whereas the German levy was structurally straightforward (although the legislation itself contained many complex provisions and exemptions, governing specific circumstances and classes of taxpayer, as well as interactions with the wider tax system). The timings of the levies differed dramatically, as did the internal politics of the two countries, reflecting the fact that one was freshly liberated from occupation, the other a recently occupied aggressor. As a result, these cases should provide interesting insight into how policy design choices and broader political, economic and social factors contributed to different outcomes.

³¹ Eichengreen, 1989.

3.1 | France (1945)

3.1.1 | Context

France emerged from WWII victorious, but with an economy devastated by the conflict. Its industries had been mobilised first for the protection of the Third Republic, then to fuel the German war machine,³² and finally to support the Allied forces as they pushed eastwards across Europe. As one of the central theatres of conflict, French homes, factories and infrastructure were bombed out, agricultural land chewed up by waves of advancing and retreating troops, populations displaced and hundreds of thousands of working-age men dead or severely injured. Agricultural production was little more than 50 per cent of pre-war levels and industrial output had fallen by around a quarter.³³ Reconstruction would clearly require a massive mobilisation of resources and the new French state aimed not merely at restoring the pre-war status quo, but rather at an ambitious modernisation of the French economy, perceived as stagnating even before its weaknesses were exposed by the speed of the German victory in 1940. This modernisation would require substantial state-coordinated investment – reflected in the Monnet Plan, introduced in early 1946.

As an added complication, the post-war French state was also confronted with a distribution of wealth that had been heavily influenced by the collaboration of parts of French industry and society with the occupying German forces, as well as by an explosion of informal economic activity outside the strictures of wartime regulation. Redressing these wrongs by penalising those who had profited during the Vichy era was a clear priority for the new regime. In the latter days of the occupation, the French Resistance had promised ‘the establishment of a progressive tax on war profits and more generally on gains made to the detriment of the people and the nation during the period of occupation’.³⁴ As French territory was liberated, in many areas local committees formed spontaneously to administer their own interpretation of redistributive (and retributive) justice. In an effort to curb and coordinate these initiatives, the French state created departmental committees, comprised of representatives from regional administrations as well as from local communities. A government decree of 18 October 1944 (*Ordonnance tendant à confisquer les profits illicites*) mandated the confiscation of profits arising from trade with the enemy, as well as black market activities. However, faced with the massive scale of the informal economy during the occupation, the symbiotic relationship between the French and German economies over this period, the gaps in record-keeping, the ingenuity of wealthy individuals potentially affected by the ordinance, and limited investigative resources on the part of the state, these confiscations bore little fruit.³⁵ This bolstered both the fiscal and the ethical case for a more general charge on wealth, and wealth accumulated during the war in particular. It also chimed well with the social-democratic flavour of the Resistance’s vision for post-war France, a vision that included ‘the establishment of a genuine economic and social democracy, implying the removal of the great economic and financial feudal structures from the direction of the economy’.³⁶

3.1.2 | *Impôt de Solidarité Nationale*

The ISN was introduced on 15 August 1945 (*Ordonnance instituant un impôt de solidarité nationale*) – a little more than three months following the Allied victory in Europe. The preamble refers to

³² Occhino, Oosterlinck and White, 2008.

³³ INSEE, 1966.

³⁴ Conseil National de la Résistance, 1944.

³⁵ Mouré and Grenard, 2008.

³⁶ Conseil National de la Résistance, 1944.

the ongoing efforts to reclaim ‘illicit’ profits, before stating that the distinctive goals of the ISN were to redress inequalities arising from the differential impact of the war on different households ‘whatever their causes’, as well as ‘to contribute to recovery from the ruins of war’. The tax itself was comprised of two separate components: on the one hand, a one-off wealth tax computed on the basis of a taxpayer’s net asset holdings as at 4 June 1945 (the date of the French post-war currency reform); on the other, a charge on the increase in their net wealth between 1 January 1940 and the currency reform date. The retrospective nature of the charge limited opportunities for capital flight. Newly accumulated net wealth was subject to both taxes.³⁷

Both taxes had a progressive rate structure: ranging from a rate of 3 per cent on fortunes under 500,000 francs to a maximum rate of 20 per cent on wealth over 300 million francs, and from a rate of 5 per cent on wartime wealth gains under 150,000 francs up to a 100 per cent tax rate on gains in excess of 5 million francs (*Ordonnance instituant un impôt de solidarité nationale*, 1945: Art. 19, 25). Both taxes included a basic tax-free allowance: 200,000 francs for the overall wealth tax, and 50,000 francs on the incremental wartime wealth gain, with a range of additional allowances also available (*Ordonnance instituant un impôt de solidarité nationale*, 1945: Art. 16, 24). To put these figures into context, the average wage for a male industrial worker in Paris in October 1945 was slightly less than 35 francs per hour; by December 1946, the General Confederation of Labour was demanding a minimum living wage of 7,000 francs per month (84,000 francs per year) on the basis of a 48-hour working week.³⁸ Individuals and corporate entities were both subject to the levy on overall wealth, although the incremental charge on wartime gains only applied to individuals, and the overall wealth tax liability for corporate entities was calculated at fixed rather than progressive rates.³⁹

As of 1945, unlike in the German case discussed below, France did not have a comprehensive wealth tax in place. Consequently, the ISN instead invoked the rules of the French estate tax as a starting point for establishing the scope and valuation of the tax base (*Ordonnance instituant un impôt de solidarité nationale*, 1945: preamble) – effectively treating taxpayers as if they had inherited their wealth from themselves as of 4 June 1945 (over two months before the tax was announced). While valuations were generally supposed to take place at market price, in practice formulaic valuations using standardised indicators (such as historical values, revenues, profit, sector and region) were adopted for many asset classes.⁴⁰ The overall wealth tax could be paid in four equal annual instalments, from the start of 1946 through to the start of 1949, whereas the incremental tax on wartime wealth gain had to be paid in full no later than the end of February 1947 (*Ordonnance instituant un impôt de solidarité nationale*, 1945: preamble).

3.1.3 | Impacts

According to official statistics, the ISN raised over 121 billion francs – equivalent to around 5 per cent of 1946 national income, albeit collected over four years – for the post-war French state.⁴¹ The value of the tax take was curbed by rapid post-war inflation rates – from 1945 to 1948, wholesale prices rose by at least 50 per cent every year.⁴² When coupled with the introduction of other new tax policies intended to stabilise the public finances and stem inflation, this meant that the ISN accounted for a decreasing proportion of tax receipts every year: 13.6 per cent of revenues in 1946, 5.7 per cent in 1947, 2.0 per cent in 1948 and 0.7 per cent in 1949.⁴³ Compounding this were problems in identifying taxpayers

³⁷ Rosier, 1948.

³⁸ Cowan, 1947.

³⁹ Robson, 1959.

⁴⁰ Rosier, 1948; Robson, 1959.

⁴¹ Robson, 1959.

⁴² See Pickles (1953, p. 108).

⁴³ Tristram, 2005.

and auditing self-declared valuations. Only around two in every ten French households paid the tax – on account of both exemptions and evasion – and undervaluation of assets was commonplace.⁴⁴ While the amounts raised constituted a significant amount of revenue by ordinary standards, in relative terms the ISN generated a lower level of receipts than almost all other European capital levies of this era.⁴⁵ By comparison, procedures to confiscate illicit profits had imposed penalties amounting to 147 billion francs by 1950 (albeit only around a quarter of these monies had been recovered by this point) and many contemporary observers viewed this as a failure.⁴⁶ Anecdotally, the ISN appears to have been much resented by those caught in its net, not least on account of the ‘considerable’ compliance burdens it imposed on taxpayers and their advisers.⁴⁷

The comparatively small tax take meant that the tax had limited financial impact on individuals and businesses, but also meant it was only of limited use in achieving the French government’s wider objectives. The tax did little to calm inflation rates or resolve the conflicting distributive claims confronting the post-war French state. Indeed, a subsequent ‘exceptional levy to combat inflation’ was introduced on 7 January 1948 (*Loi instituant un prélèvement exceptionnel de lutte contre l’inflation*), during the first Schuman ministry, although this levy took the form of a one-off surcharge on profits and income (and was effectively administered as a forced loan), rather than as a capital levy or one-off wealth tax.⁴⁸ Ultimately, it fell to the Marshall Plan to stabilise the post-war economy and provide funds for investment in the reconstruction and modernisation effort.⁴⁹

3.2 | West Germany (1952)

3.2.1 | Context

The mobilisation of industry and workers in support of the Nazi war effort, coupled with a rearguard action that saw large swathes of German territory transformed into battlefields in the final stages of the conflict, left the post-war German economy in a state of collapse. Many houses, factories, roads and rail lines had been destroyed or badly damaged by the Allied bombardment, and many people of working age had been killed in the conflict, military personnel and civilians alike. The materials required for subsistence, let alone industry, were in short supply. From the perspective of the Allied victors, the devastation of the German economy – and, concomitantly, of the fiscal capacity of the German state – were considered in some quarters to be desirable outcomes. The US Treasury Secretary Henry Morgenthau Jr, perhaps the most prominent proponent of this view, advocated transforming the defeated nation into a primarily agrarian economy, envisaging a mass redeployment of German workers to the agricultural sector.⁵⁰ Preventing the recovery of German industry would prevent the recovery of German military capacity, as well as satisfying demands for punitive treatment of the German populace. However, as the post-war rivalry between the US and the USSR escalated, the US and its allies began to see a prosperous reconstructed West Germany as key to the containment of the Soviet bloc. This shift culminated in 1948 with the introduction of the Marshall Plan, which provided funding for the economic reconstruction of West Germany as an advanced industrial country, and the convening of the *Parlamentarischer Rat*, the assembly that paved the way for the political reconstruction of West Germany as a constitutional democracy.

⁴⁴ Rosier, 1948.

⁴⁵ Robson, 1959.

⁴⁶ Mouré and Grenard, 2008.

⁴⁷ Rosier, 1948.

⁴⁸ Caron, 1982; Tristram, 2005.

⁴⁹ Casella and Eichengreen, 1991.

⁵⁰ Morgenthau, 1945.

Foreign aid alone was not, however, sufficient to meet the fiscal demands of the reconstruction effort. Post-war Germany inherited a tax system that included a recurring wealth tax (*Vermögensteuer*), the rates of which were increased by the Allied Control Council in 1946, ranging from 1 per cent up to 2.5 per cent. The emergency aid law (*Soforthilfegesetz*) of 1949 raised the recurring wealth tax rate yet further, to 3 per cent, to help pay for urgent social spending.⁵¹ However, faced with the costs of reconstruction, recapitalising households and businesses whose assets were destroyed or confiscated during the conflict, and integrating the influx of refugees from outside the country's newly redrawn borders, even greater resources were needed.⁵² It was in this context that the burden-balancing law (*Lastenausgleichsgesetz*) of 1952 was formulated. Unlike the Japanese post-war capital levy – and contrary to Eichengreen's depiction of the conditions necessary for a successful one-off wealth tax – this was the outcome not of Allied imposition, but of complex political negotiations within the new West German democracy.⁵³

3.2.2 | *Lastenausgleichsgesetz*

As the name suggests, the burden-balancing law sought to even out the economic burdens confronting West German households in the wake of the conflict. This was a fundamentally ambiguous objective: suggesting, on the one hand, restitution of the *status quo ante* and, on the other, a radical redistribution of resources aiming at a more egalitarian society. In the end, the legislation sought to achieve both objectives, invoking both 'the claims of particularly affected groups' and 'the principles of social justice' in its preamble. Compensation was offered to households and businesses that had seen their assets destroyed or damaged in the conflict, but the law also provided for loans, grants and pensions to a wider cross-section of society. Moreover, the new law was not exclusively concerned with transfers to private individuals and companies, but also promised funding for the construction of public benefit assets, such as social housing.⁵⁴

The funding for this ambitious programme of public expenditure came from a variety of sources. The majority was taken from general taxation revenues, including the aforementioned recurring wealth tax, which remained in place through to the 1990s; but a significant proportion (around two-fifths) came from a one-off wealth tax.⁵⁵ This tax was levied upon assets based in the three Allied occupied zones, using a retrospective valuation date that limited opportunities for capital flight (namely, the date of the June 1948 currency reform that introduced the Deutsche Mark). The tax liability was charged at a flat rate of 50 per cent of these assessed values, with relatively little by the way of allowances and exemptions, but with payment by instalment permitted over a period of 30 years (*Lastenausgleichsgesetz*, 1952: §31–34). The 50 per cent rate was symbolic, to suggest an equal sharing of burdens between those who had seen their wealth destroyed in the conflict and those who had not; the long payment period was determined by hard-nosed calculations about how long taxpayers would need in order to pay off such a large liability, without damaging the German economy.⁵⁶

Discounts and deferrals on instalment payments were available for families whose total wealth subsequently fell below a certain threshold, and for individuals on account of old age, disability or unemployment (*Lastenausgleichsgesetz*, 1952: §53–55). Reliefs were also granted against tax charges incurred under the *Soforthilfegesetz* of 1949 (*Lastenausgleichsgesetz*, 1952: §48). Different asset classes were subject to different interest rates, with business asset wealth incurring the highest

⁵¹ Wieland, 2003.

⁵² Albers, 1989.

⁵³ Hughes, 1999; Wenzel, 2008.

⁵⁴ Albers, 1989; Hauser, 2011.

⁵⁵ Hauser, 2011.

⁵⁶ See Hughes (1999, pp. 151–153) and Wenzel (2008, pp. 71–103).

interest charge, followed by real estate, and the lowest charge on agricultural and forestry assets (*Lastenausgleichsgesetz*, 1952: §35). Financial assets such as mortgages and other loans were subject to a separate schedule of rules, reflecting their different treatment under the earlier currency reform.⁵⁷

3.2.3 | Impacts

Because the legislation fixed the interest rate on the tax liability in nominal terms, steady inflation and rapid economic growth combined to reduce the economic impact of the instalment payments in relatively short order. Revenues from the *Lastenausgleichsabgaben* fell from a high of over 2.3 per cent of GDP when first introduced, to circa 1.3 per cent of GDP by the mid-1950s. By the start of the 1960s, receipts had already fallen below 1 per cent of GDP, and continued their exponential decline through to the end of the 1970s.⁵⁸ The *Wirtschaftswunder* of the post-war years, as the devastated West German economy rapidly caught up with its peers, meant high employment and rising wages, as well as strong profits. In turn, this meant that households and businesses were able to meet the instalment payments on their one-off wealth tax liabilities without too much hardship.

Indeed, the expenditure facilitated by the *Lastenausgleichsgesetz* played an important part in that post-war economic boom, as well as in the cultivation of social cohesion in the new West German state. Although, as discussed above, resources raised from the one-off wealth tax were used both for the egalitarian goal of levelling up all elements of German society, and for the inegalitarian goal of restoring the wealth of the formerly wealthy, in practical terms the former took priority. Compensation payments for specific losses of wealth did not begin until 1957⁵⁹ and often took many years to be assessed and processed, with payments still taking place in the early 21st century.⁶⁰ By contrast, more generic forms of support were decided and provided relatively quickly, as was funding for the construction of social housing, and for initiatives to create jobs and secure livelihoods.⁶¹ As such, the *Lastenausgleichsgesetz* has been celebrated not just as sound fiscal policy, but as a cornerstone of post-war nation-building.⁶²

3.3 | Discussion

The French and German post-WWII levies diverged dramatically in terms of their ambition and their outcomes, as well as in terms of their popular reception. Nevertheless, neither appears to have prompted large-scale capital flight, nor triggered a collapse in confidence in the tax system of the kind often cited as a reason to avoid one-off wealth taxes. Although further research into post-WWII capital levies would be invaluable, given the limited attention they have received in the literature to date, the French and German case studies support the conclusion by Robson (1959) that post-WWII levies ‘on the whole’ displayed ‘smoothness and success’, particularly when compared with their post-WWI antecedents. Consequently, the claim that no democracy has successfully implemented a one-off wealth tax does not stand up to scrutiny, and it is interesting that many of these claims cite the account of Eichengreen (1989), which focuses primarily on the WWI experience.⁶³

Of course, the fact that many countries implemented capital levies with a modicum of success following WWII does not prove that they are a viable option for present-day policymakers, any

⁵⁷ Hughes, 1999; Hauser, 2011.

⁵⁸ Bach, 2011.

⁵⁹ Albers, 1989.

⁶⁰ Hauser, 2011.

⁶¹ Albers, 1989.

⁶² Albers, 1989; Hughes, 1999; Hauser, 2011.

⁶³ See, for example, IMF (2013).

more than the fact that such policies were comparatively unsuccessful following WWI disproves their contemporary viability. In this regard, it is worth noting that the circumstances of the post-WWII moment were particularly auspicious for the introduction of capital levies. Many continental European countries embarked on monetary reforms in the aftermath of liberation or defeat, as a means by which newly formed governments could assert control not just over inflation, but over an economic order that had been designed to serve the wartime needs of the Axis powers, and in which black marketeering was rampant.⁶⁴ This provided an invaluable reference point for taxpayers and tax authorities alike, particularly for wealth held as cash or cash equivalents, and it is notable that both French and German levies stipulated that taxable wealth would be assessed as at the date of such prior monetary reforms. The persistence of wartime controls on the movement of cash and commodities meant that moving capital between jurisdictions was not a straightforward matter. Question marks existed over the provenance of wealth accumulated during wartime, and the complicity of (some of) the wealthy with discredited and morally abhorrent regimes. Added to this, the introduction of the Bretton Woods system of capital controls and managed currency exchange further limited opportunities for capital flight, one of the key features distinguishing the comparatively successful post-WWII levies from their comparatively unsuccessful post-WWI counterparts.⁶⁵

Comparing the French and German levies, both taxes adopted a retrospective assessment date and staggered payment of the tax liability over multiple years. However, it is also notable that the German levy was substantially more successful in raising revenue, and eliciting public support, than its French counterpart. There are a number of reasons for this. Most obviously, the German levy was more ambitious, with a higher tax rate and a longer payment period than the ISN. But background economic conditions were also important: inflation in France over the late 1940s (the payment period for the ISN) rose faster than in West Germany in the immediate aftermath of the *Lastenausgleichsgesetz*. This reduced the return on the French levy, relative to the investment of effort by taxpayers, legislators and the tax administration. Given that the structure of the ISN was already rather convoluted, with the requirement to differentiate wartime gains from the rest of one's wealth, and to apply multiple different tax rates to each tax base, it is unsurprising that it was viewed with hostility by those who were subjected to it; and the revenues were not substantial enough for the wider population to benefit significantly from the fiscal gains or anti-inflationary effects. Nevertheless, French economic and fiscal circumstances may have been even more parlous without it – the ISN did account for over a tenth of all fiscal receipts in the first year that payment was collected. It could be seen as a stopgap measure at a time in which the administrative infrastructure for more sophisticated and better targeted forms of taxation was still being developed.⁶⁶ Impacts on legitimacy aside, the high inflation rates in post-war France posed a more practical problem for the ISN, creating incentives for taxpayers to drag their heels on payment, as a short deferral could amount to a substantial financial gain.

By contrast, the steady inflation rates of West Germany in the 1950s posed fewer obstacles to the success of a one-off wealth tax, and the rapid growth rates reduced the relative impact of the charge on taxpayers. The clear hypothecation of the *Lastenausgleichsabgaben* for redistribution to poorer citizens helped to mobilise political support for the German levy, as did the extensive public debate and partisan compromises that preceded its introduction.⁶⁷ Hypothecation, when coupled with both the scale of the charge and the long payment horizon, may have reinforced the notion that it was unlikely to be repeated. Counterintuitively, given the theoretical importance of introducing a one-off wealth tax unheralded, West Germany seems to have benefitted from waiting for more settled economic circumstances and wider public debate before introducing its own levy. The fact that this was accomplished without a notable degree of capital flight reflects the unique circumstances of the

⁶⁴ Klopstock, 1946, 1949.

⁶⁵ Cf. Robson (1959, p. 33).

⁶⁶ See Pickles (1953, pp. 58–61) and Robson (1959, pp. 39–40).

⁶⁷ Albers, 1989; Hughes, 1999.

post-WWII era; it may also reflect the comparatively low annual cost of the tax charges, given the long payment horizon and the backdrop of robust economic growth.

Clearly, not all European countries favoured a one-off wealth tax in the wake of WWII. The UK, notably, did not pursue such a policy, and understanding the reasoning behind this decision can help to shed further light on factors influencing the feasibility and desirability of capital levies. Despite Keynes' support for a capital levy early in the war,⁶⁸ and interest in such a measure among certain elements within the Treasury and the post-war Labour government, it remained a somewhat marginal policy proposal during this period.⁶⁹ The National Debt Enquiry, convened at the behest of Labour leader Clement Attlee in 1944, concluded that the debt would be better tackled by long-term borrowing at low interest rates, rather than rapid repayment using the proceeds of a capital levy.⁷⁰ The twin burdens of fiscal consolidation and post-war reconstruction instead fell upon a more familiar array of taxes. It is significant that, unlike France and Germany, the UK emerged from WWII with an effective tax administration in place, one that had not been disrupted by defeat and the concomitant need to weed out politically suspect administrators. Nor did the UK have to reckon with the economic legacy of a deposed regime: post-war wealth in the UK context was not generally tainted by allegations of collaboration. Added to this, concerns about wartime profiteering were alleviated by the punitive rates of excess profits tax that had been levied since the start of the conflict, and any residual concerns about inequality were mitigated by extremely high post-war tax rates – in 1948, the very highest earners faced a 45 per cent standard rate of income tax, coupled with a surtax that peaked at 52.5 per cent, with all the distortions that such rates implied. Under the circumstances, the case for a capital levy seemed substantially weaker in the UK than it did in many other European countries in the aftermath of WWII.

On the face of it, the predicament of developed democracies today seems closer to that of the post-war UK than that of post-war France and Germany. To the extent that governments are able to issue debt at low interest rates with long maturity dates, the case for introducing new taxes to cover extraordinary costs (such as those associated with the COVID-19 pandemic) appears weak, as these can instead be repaid over a long time horizon, requiring minimal adjustment of 'normal' tax and spending plans. However, it is also worth noting that many developed democracies have seen sharp increases in asset values over recent years, in part due to the reliance on extraordinary monetary policy interventions such as quantitative easing during the global financial crisis and the pandemic. Under these circumstances, countries may emerge from the pandemic with a desire to 'correct' the wealth distribution to some degree; in this respect, the analogy to post-war France and West Germany remains apt.

4 | ONE-OFF WEALTH TAXES IN THE 21st CENTURY

The concept of capital levies fell out of favour in developed democracies in the latter part of the 20th century, during the comparative peace of the Cold War. However, the global financial crisis reignited interest in one-off charges on wealth. The Berlin-based economist Stefan Bach broached the possibility of a one-off wealth tax as a way of stabilising European public finances in 2012.⁷¹ The International Monetary Fund (IMF) briefly touched on one-off capital levies as a coda to a chapter of its October 2013 Fiscal Monitor, although it concluded – citing Eichengreen's historical work, without noticing its limitations – that 'experience suggests that more notable than any loss of credibility was a simple failure to achieve debt reduction, largely because the delay in introduction gave space for extensive

⁶⁸ Keynes, 1940.

⁶⁹ Daunton, 2002.

⁷⁰ Allen, 2012.

⁷¹ Bach, 2012.

avoidance and capital flight'.⁷² The Bundesbank produced a slightly more substantial analysis of the topic in its January 2014 Monthly Report.⁷³ Detailed estimates of how much such a levy might raise in Germany (and from whom) appeared in the March 2014 issue of *Fiscal Studies*⁷⁴ and economists from the Bundesbank also authored a working paper simulating the potential economic consequences of such a tax later that year.⁷⁵ The centre-left Fabian Society published a proposal for a one-off UK wealth tax in 2016, including more onerous reporting requirements for taxpayers who had previously engaged in tax avoidance, as determined by markers such as usage of tax haven bank accounts or disclosable schemes under the DOTAS regime.⁷⁶

In practical policy terms, however, no developed democracy responded to the global financial crisis by imposing a one-off wealth tax of the breadth and scale envisaged by these authors, let alone a capital levy comparable in ambition to those adopted in the wake of WWI and WWII. As we will see in the remainder of this paper, particular policies adopted by Iceland, Ireland and Cyprus during the decade following the financial crisis can all be seen as species of one-off wealth tax, though they all constitute interesting variations on the conventional capital levy format. The Icelandic and Irish taxes involved annual valuations rather than one-off valuations, opening up the possibility of behavioural responses from taxpayers seeking to shift their wealth into jurisdictions and/or asset classes where a tax charge can be more readily avoided or evaded. However, in both of these instances, other obstacles to such tax planning strategies existed. The Irish and Cypriot cases each focused on a narrow class of assets (pension savings and bank deposits, respectively). Nevertheless, all three examples display other hallmarks of one-off wealth taxes: payments made only over a limited and specific time horizon; justification by reference to extraordinary fiscal pressures; rapid introduction with minimal public debate and immediate effect; and/or unusually high tax rates. They thus provide further insight into the practicality of one-off taxes on wealth in modern democracies.

4.1 | Iceland (2009)

4.1.1 | Context

Iceland was one of the first victims of the global financial crisis. As in many countries, Iceland's largest banks had expanded their balance sheets on the assumption that short-term credit would be available and affordable, a business model that became rapidly unsustainable when the credit crunch hit. It was readily apparent to international markets that the Icelandic economy was not large enough to backstop its banks and that, unlike members of the EU and Eurozone, it would be unable to call on any larger partner as a lender of last resort.⁷⁷ Consequently, Iceland's banks were among the first to fail in the wake of the Lehman Brothers bankruptcy of September 2008.

Unlike victims of the later Eurozone crisis, then, the Icelandic government did not have to foot the bill for the losses of its financial institutions. Nevertheless, the bank failures still wreaked havoc with the Icelandic economy, as businesses found themselves unable to access credit and the value of the krona fell precipitously. In late 2008, the government called upon the IMF and a range of other donors for financial assistance, in order to stabilise the currency and fund the public-sector deficit, which following the crash peaked at almost 10 per cent of GDP. As part of the conditions attached to those loans, Iceland was expected to engage in fiscal consolidation. In 2009, the Icelandic government

⁷² IMF, 2013, p. 49.

⁷³ Bundesbank, 2014.

⁷⁴ Bach, Beznoska and Steiner, 2014.

⁷⁵ Kempkes and Stähler, 2014.

⁷⁶ Donovan, 2016.

⁷⁷ Buiter and Sibert, 2011.

– now led by a new, left-leaning coalition – announced a package of tax increases and spending cuts designed to achieve that goal, including a temporary wealth tax.⁷⁸

4.1.2 | The temporary wealth tax

The Icelandic temporary wealth tax was, in essence, a time-bound version of a recurring net wealth tax, focused on a relatively narrow group of the very wealthiest households in the country. According to the December 2009 legislation, personal net wealth was to be taxed annually, on the basis of asset values as at the end of each preceding tax year, for a total of three years. This recurring valuation meant that it lacked the once-only assessment date that is one of the key features of a (credible, unheralded) one-off wealth tax, from which one of its most desirable economic properties follows: namely, that its introduction should not distort taxpayer behaviours.

As such, it might be viewed more as a short-lived recurring tax charge, rather than a true one-off wealth tax. Nevertheless, it possessed several other characteristics that mean it could be classified as a form of one-off wealth taxation. Firstly, it was conceived and delivered as a ‘one-off’, in the sense of being levied for a specific and limited period of time. Secondly, if taxpayers believed policymakers’ claims that the tax was temporary, then this should have limited the distortionary impact, as the present cost of a short time-bound tax is substantially lower than that of a conventional tax charge that continues indefinitely. The Icelandic charge was introduced in extraordinary circumstances, and justified by reference to these. Finally, it was levied at a rate in excess of the historical norm for Iceland’s recurring wealth tax, reflecting the tendency for one-off wealth taxes to be charged at higher rates. The new temporary wealth tax was charged at more than double the rate of its permanent predecessor (the old tax rate stood at only 0.6 per cent at the time of its abolition), so the Icelandic example fits the pattern of one-off wealth taxes being levied at higher rates than their recurring counterparts.

In 2010, wealth was taxed at a rate of 1.25 per cent on net assets in excess of 90 million krona (equivalent to around €500,000 at the time) for individuals, or 120 million krona for a couple. In 2011, the rate was raised to 1.5 per cent and the tax-free allowance lowered to 75 million krona (or 100 million krona for a couple). A higher tax rate for larger stocks of personal wealth was introduced in 2012, and the charge was levied for the last time in 2014.⁷⁹ As a tax applying to net wealth in general, rather than particular categories of wealth such as bank deposits or pension savings, the legislation had to provide for the valuation of diverse asset classes. Conveniently for Icelandic policymakers, however, the government had only abolished the country’s recurring wealth tax back in 2006, which meant that many provisions were simply reinstated for purposes of the temporary tax. The legislation of 2009 stipulated that the tax would remain in force for three years, and although this was later extended by two years, the tax remained time-bound.^{80,81}

4.1.3 | Impacts

The tax raised 0.2 per cent of GDP in revenue in 2010, 0.4 per cent in 2011, and 0.5 per cent for 2012–2014, which is equivalent to around 40 billion krona in total.⁸² This was substantially larger

⁷⁸ IMF, 2010.

⁷⁹ Ríkisskattstjóri, 2020.

⁸⁰ Bogadóttir, 2016.

⁸¹ By contrast, Spain also reintroduced its net wealth tax on a ‘temporary’ basis in 2011 in response to the financial crisis, but no expiry date was explicitly set and the measure remains in force at the time of writing – hence its exclusion from this survey. As it happens, the original 1977 legislation that introduced a wealth tax to Spain, following the post-Franco transition to democracy, also referred to the tax as a temporary measure (‘transitorio’) – even though no expiry date was set, and the wealth tax was ultimately put on a non-transitory footing with the wealth tax law of 1991.

⁸² OECD, 2020.

than originally forecast. According to the IMF (2010), the tax was only expected to raise 3.5 billion krona per year. The higher yield reflected the increases in the tax rate and the lowering of the tax threshold in 2011, as well as the broader recovery of the Icelandic economy.

The revenue raised also reflects the limited scale of capital flight by wealthy individuals during this period. However, this may well have been influenced more by the existence of capital controls over the duration of the levy, rather than taxpayers' beliefs that the charge was temporary and thus not worth the expense of avoidance or evasion strategies. Iceland is an import-dependent economy, with many local debts either denominated in foreign currency or linked to inflation. Consequently, the government was swift to introduce capital controls to stem the depreciation of the krona that began in early 2008, even before the formation of the left-leaning coalition government that would introduce the temporary wealth tax in 2009. These capital controls made avoidance of the new temporary wealth tax difficult. Somewhat unusually, the IMF accepted these measures, on the understanding that they were to be removed as soon as was practicable.⁸³ Capital controls were only fully abolished in March 2017, after the temporary wealth tax had run its course.⁸⁴

Administratively, Iceland benefitted from the fact that it had had a very similar recurring net wealth tax in place as recently as 2005. Consequently, a relatively up-to-date template for how the tax was to be assessed, audited and collected was already in place, and employees of the Icelandic tax authority still had experience of administering the tax.

Politically speaking, the temporary wealth tax elicited complaints from taxpayers and commentators that will be familiar to analysts of non-temporary net wealth taxes. The tax was also subject to legal challenge on a range of grounds including the unequal treatment of different kinds of wealth and different kinds of family circumstance, although the Icelandic Supreme Court ultimately ruled in favour of the government.

4.2 | Republic of Ireland (2011)

4.2.1 | Context

Ireland, too, entered the global financial crisis with a banking sector that was large relative to the size of its economy. Having decided to offer a comprehensive package of support to its financial institutions, the Irish government was among the first countries to seek assistance from the EU and IMF during the European sovereign debt crisis.⁸⁵ In November 2010, it agreed a bailout package of €85 billion, including €17.5 billion from its own longer-term reserves.

The Irish government had already enacted a series of fiscal consolidation measures prior to the bailout. Nevertheless, the terms of the 2010 deal went further still, requiring additional tax rises and spending cuts in order to achieve the 3 per cent deficit target enshrined in the Stability and Growth Pact. Consequently, after the incumbent Fianna Fáil-led government was voted out of office in February 2011, the economic adjustment programme left the incoming Fine Gael administration with little fiscal room for manoeuvre. Any new spending announcements would require offsetting tax rises or spending cuts. It was in this context that a private-sector pension levy – a one-off wealth tax, focused exclusively on pension wealth – was introduced.

4.2.2 | The Irish pension levy

The Irish pension levy was legislated as part of the Finance (No. 2) Act 2011, which passed into law on 22 June, little more than a month after it was first announced in the Dáil Éireann on 10 May. The

⁸³ Andersen, 2008.

⁸⁴ Baldursson, Portes and Thorlaksson, 2017.

⁸⁵ McGowan, 2011.

levy took the form of a new stamp duty, to be charged on a temporary basis between 2011 and 2014 on assets under management by Irish pension funds. The charge was calculated at a rate of 0.6 per cent on the value of said assets on 30 June of each year, with payment due less than three months later. The tax was in essence a tax on the accumulated pension wealth of Irish residents, with no minimum thresholds or exemptions.

As with the Icelandic case, it could be debated whether such a levy should be considered as a one-off wealth tax, as opposed to a short-lived form of recurring wealth tax. In defence of the former classification, the levy was explicitly legislated as a temporary measure, charged annually from 2011 to 2014. Although it was extended in 2014 for an additional year (at a lower rate), and despite concerns that it would become a permanent feature of the Irish tax system, it was discontinued from 2016 onwards. Moreover, the public spending that it was notionally intended to finance was a one-off too. While, as a matter of administrative fact, the sums raised were treated as part of general tax revenues, the charge was presented to the Dáil as a way of funding a new 'Jobs Initiative', one of the central elements in the newly elected government's economic strategy.

Having said that, in other respects, the pension levy did function more like a recurring wealth tax. Unlike a genuine one-off charge, which would involve a single assessment of the tax payable at a particular point in time (although that liability might be paid in a series of instalments over a number of years), the pension levy involved a new calculation of the tax liability due each year, based upon an up-to-date valuation of the assets under management. The annual valuation approach allowed the government to quote a lower tax rate than would be required under a lump-sum approach. At 0.6 per cent per annum, the tax rate was comparable to the management fees charged by many pension fund managers. Indeed, the government hoped that part of the levy might be absorbed by fund managers' margins, rather than by pension savers themselves.

Nevertheless, in most cases, the levy was passed through in its totality,⁸⁶ and the legislative package that introduced the pensions levy explicitly allowed trustees of defined benefit schemes to reduce members' benefits in light of the charge: 'the aggregate of the amount of duty paid... shall be deemed to be a necessary disbursement from those assets, and the benefits payable currently or prospectively to any member under the scheme may accordingly be adjusted by the trustees, but the diminution in value of those benefits shall not exceed the amount disbursed from the assets attributable at the valuation date to the scheme's liabilities' (Finance No. 2 Act, 2011: 4.12b). The attribution of the levy to individual members' benefits was a complex actuarial task, and presented trustees with a range of options that could cause 'a great deal of variability in outcomes for different categories of member'.⁸⁷ By way of example, already-retired members of the Tara Mines pension scheme were offered a choice between a 10 per cent cut in their pensions for the duration of the levy alone and a permanent reduction in income of circa 2.5 per cent⁸⁸ – with the latter option ultimately preferred. The pensions levy thus operated primarily as a tax on pension wealth, reducing the size of individuals' savings (for defined contribution schemes) or the size of individuals' entitlements (for defined benefit schemes).

4.2.3 | Impacts

Not all pensions were affected by the levy. Because the tax base was defined as assets under management within Irish pension funds, public-sector pensions that were financed out of general taxation on a 'pay-as-you-go' basis were unaffected. However, public-sector pensions had already been subject to a series of cutbacks in the preceding years. The February 2009 Financial Emergency Measures in the Public Interest Act introduced a 'pension-related deduction' for public-sector

⁸⁶ Williams, 2012.

⁸⁷ Society of Actuaries in Ireland, 2011, p. 10.

⁸⁸ O'Leary and Egan, 2011.

employees, effectively reducing wages by an average of circa 7 per cent as a putative retirement contribution. The deduction was applied both to public-sector employees who were members of funded pension schemes, as well as to employees whose pensions were to be financed out of general taxation on a pay-as-you-go basis; in both cases, the ‘contribution’ was ‘remitted to the benefit of the Exchequer’, rather than paid into any dedicated pension fund.⁸⁹ The following year, public-sector pensions were cut directly as part of the bailout deal, with pensions of already-retired public servants reduced by an average of 4 per cent above a €12,000 threshold.⁹⁰ Consequently, the introduction of the pension levy in 2011 was not accompanied by widespread complaints of unequal treatment on the part of private-sector savers. (The group who had most cause to complain on equity grounds were public-sector workers who paid into funded pension schemes – who thus incurred both the pension-related deduction and the pension levy.)

In political terms, the levy was a remarkable success – raising the tax burden upon a broad range of households, yet eliciting little by the way of popular opposition. In the words of an *Irish Times* editorial of 2014, ‘few major tax changes have raised more revenue with less public outcry than the Government’s private sector pension levy’.⁹¹ This success can be attributed to several factors. As just discussed, equity arguments for the levy were strong, given the treatment of public-sector employees and their pension entitlements over the preceding two years. The temporary nature of the levy meant that opposition had limited time in which to mobilise and grow, while the fact that the charge was nevertheless spread over several years allowed for a lower headline rate of taxation, making it appear lower than if it had been levied upfront. The decision to make administration and payment of the charge the responsibility of pension fund managers, rather than individual savers, meant that public awareness of the levy and its impact upon household finances was lower than would otherwise have been the case. The macro-economic and fiscal context – particularly the perceived lack of viable alternatives to austerity measures under the terms of Eurozone membership and the 2010 IMF/EU bailout – facilitated public acceptance of the trade-off between the new levy and the new spending measures it was supposed to finance. Indeed, in spite of EU-imposed austerity, the continuity in pro-integration public sentiment in Ireland over this period is striking.⁹² Finally, the recovery in financial markets and the wider economy over the period 2011–15 meant that the value of assets managed by pension funds rose sharply over this period anyway, exceeding their pre-crisis peak in 2014, making the impact of the tax charge less noticeable.

Admittedly, pension specialists, industry representatives and worker organisations expressed a great deal of dismay over the levy. The Irish Association of Pension Funds described it as ‘grossly inequitable’, and the Irish Congress of Trade Unions criticised it as ‘short-sighted, arbitrary and unfair’.⁹³ The 2014 surcharge, and the extension of the levy to 2015, proved even less popular and were denounced variously as ‘outrageous’, ‘disingenuous’ and ‘an attack on pensions’.⁹⁴ But criticism was primarily confined to experts, and efforts to challenge the levy in the courts did not succeed.

How much revenue did the pension levy raise? Government figures from the end of 2015 showed that the levy brought in nearly €2.4 billion over the five years that it was in operation⁹⁵ – in excess of the amounts originally anticipated, but still less than 0.5 per cent of GDP per year at its peak. The annual revaluation of the tax base enabled the government to benefit from growth in the value of pension assets over this period; in the words of the Economic and Fiscal Outlook that accompanied

⁸⁹ Government of Ireland, 2009.

⁹⁰ Department of Finance, 2010; Stewart, 2011.

⁹¹ *Irish Times*, 2014.

⁹² Simpson, 2019.

⁹³ Wade, 2011.

⁹⁴ Williams, 2013.

⁹⁵ O’Dwyer, 2015.

the 2014 Budget, ‘the over-performance of the pension levy... is welcome and comes as a result of an appreciation of the capital value of pension funds’.⁹⁶

The flat-rate approach meant that the levy was not progressive. However, its flat-rate structure made administration easier, as there was no need for pension funds or the tax authority to compile information showing the total pension position of individual taxpayers (which might involve a combination of defined benefit and defined contribution schemes, held with multiple different providers). With a cumulative charge of less than 3 per cent of underlying asset values, the levy marginally reduced the financial security of current and future pensioners, though many of those most at risk of old-age poverty would have had negligible private pension savings anyway, being primarily dependent on state pension provision. To put the same point somewhat differently, although the levy was not progressive with regard to pension savings, it was progressive with regard to overall pension income, as baseline state pension entitlements were not affected.

The legislative provision that enabled pension funds to vary their benefit payments in light of the new charge meant that the levy did not push the sector further into deficit. Also, despite the pension industry’s concerns, there does not appear to be any conclusive evidence that the rate of retirement saving fell as a result of the charge. The proportion of the Irish population covered by voluntary personal and occupational pension plans did fall by 4.1 per cent from 2008 to 2018, but the total asset value held by Irish pension funds still increased by more than 70 per cent in nominal terms over this same time period.⁹⁷ Other tax privileges associated with pension savings were retained, meaning that pensions remained tax-efficient overall, compared with other forms of retirement saving.

4.3 | Cyprus (2013)

4.3.1 | Context

As in Iceland and Ireland, on the eve of the financial crash, Cyprus possessed a vast financial sector relative to the size of its economy – in large part, a product of its success in attracting depositors from other countries, both inside and outside the EU. However, the country initially appeared well equipped to cope with the burgeoning crisis. In preparation for the country’s January 2008 accession to the Eurozone, the government had run a 3.5 per cent surplus the preceding year, and still managed to record a near 1 per cent surplus in 2008 itself. During the first phase of the European sovereign debt crisis, capital flowed into Cyprus and Cypriot financial institutions in search of a safe haven. True, increases in public spending and a downturn in the Cypriot economy meant widening public deficits, which ultimately left the government unable to borrow from financial markets by the middle of 2011 – but this was substantially later than in Greece and Ireland. Even then, Cyprus managed to avoid recourse to an EU-negotiated bailout by obtaining emergency financial support from an alternative source: Russia. In early October 2011, a spokesperson for the Cypriot government announced that the Council of Ministers had agreed a €2.5 billion emergency loan package, running from 2012 to 2016.

The Russian loan was supposed to cover the government’s anticipated deficit and debt refinancing obligations over the following five years. It was not, however, intended to pay the costs of bailing out Cyprus’ banking sector – indeed, such a bailout was not widely anticipated at the point when the loan was concluded. In the initial stages of the financial crisis, Cyprus’ major banks had appeared relatively robust. Certainly, the sector was large relative to GDP, and highly concentrated – with the two largest banks, the Bank of Cyprus and Laiki, accounting for almost half of all banking assets.⁹⁸ Nevertheless, the banking sector was still able to keep credit flowing to the economy, funding an

⁹⁶ Government of Ireland, 2014.

⁹⁷ OECD, 2019.

⁹⁸ Stephanou, 2011.

ongoing construction and housing boom, well into 2012 – aided by inflows of capital from other countries during the early days of the Eurozone crisis.⁹⁹

At the same time, however, Cyprus' banks were committing a series of strategic missteps – including not just overexposure to the inflated domestic property sector, but also to distressed Greek government debt. The Greek debt restructuring of late 2011, coupled with a downturn in the domestic property market at around the same time, left Cypriot banks' balance sheets in tatters.¹⁰⁰ By the middle of 2012, the government of Cyprus faced an unenviable choice between bailing out its banking sector, at a time when it was itself unable to borrow money from the international markets, or else allowing those banks to collapse.

It opted for the former, and petitioned the EU for assistance in June 2012. There followed a protracted process of proposal and counter-proposal between the government of Cyprus and the Troika (the European Commission, the European Central Bank and the IMF), as the size of the bailout, and the austerity measures that Cyprus would need to implement in return, were negotiated. The President of Cyprus, Demetris Christofias, ultimately balked at the resulting package, and instead opted to see out the remaining months of his term in office by drawing down on resources held by pension funds and semi-governmental public bodies.¹⁰¹ Christofias' successor within the left-wing AKEL was defeated in the February 2013 Presidential election, and the new centre-right President returned to the negotiating table. However, Cyprus' bargaining power had weakened substantially during the delay. This was partly a result of further deterioration in the Cypriot public finances; partly a result of the politicisation of the bailout within the context of the upcoming federal elections in Germany, where the Social Democratic Party had made political hay out of the prospect of German taxpayers bailing out 'Russian oligarchs, businessmen and mafiosi who have invested their illegal money' in Cypriot banks;¹⁰² and partly a result of growing concerns within the Troika (particularly the IMF) that loans might not be repaid, with the ongoing Greek crisis illustrating how the burdens of bailout packages (and the austerity measures associated with them) could preclude economic recovery and fiscal sustainability.

4.3.2 | The Cypriot bank levy and bank restructuring

The rescue package that emerged on 16 March 2013 reflected these pressures. While it included a range of by-now familiar austerity measures – tax rises, spending cuts, and privatisation deals – the centrepiece of the package was a one-off levy on bank deposits: to be charged at a rate of 9.9 per cent on uninsured deposits (over the guaranteed level of €100,000) and 6.75 per cent on insured deposits (below the threshold). The one-off charge was supposed to raise €5.8 billion towards the costs of bailing out the Cypriot banks – almost a third of GDP. The tax was to be levied on all deposits held with Cypriot institutions, irrespective of whether or not depositors were themselves based in Cyprus – critical to ensuring that 'Russian oligarchs, businessmen and mafiosi' were included in the tax base.

As the levy required parliamentary approval, the government immediately shut down the banking sector to prevent capital flight before legislation could be passed. However, the Cypriot legislature voted down the new tax on 19 March and it was not until 25 March that a new deal was agreed. The suspension of banking activities lasted for 12 days in total, with strict capital controls kept in place thereafter.¹⁰³

The 25 March deal resolved the political impasse by recasting the levy scheme as a 'restructuring' of the banking sector, thus falling under the auspices of the Bank Resolution Law, which the parliament

⁹⁹ Michaelides, 2014.

¹⁰⁰ Clerides, 2014.

¹⁰¹ Apostolides, 2013; Orphanides, 2014.

¹⁰² Dettmer and Reiermann, 2012; Chambers, 2013.

¹⁰³ Weaver and Stothard, 2013.

had already approved. Interestingly, there were local discussions of using pension fund assets to raise the revenue to replace the levy, mirroring the approach adopted in Ireland, but these proposals were rejected by the Troika.¹⁰⁴ The new deal still imposed a haircut on deposits; however, this haircut was now restricted to deposits held with the country's two largest banks (the Bank of Cyprus and Laiki) that were in excess of the €100,000 threshold. Laiki's insured depositors and performing assets were transferred to the Bank of Cyprus. Uninsured deposits in Laiki were converted in their entirety to equity stakes in the non-performing assets that remained. Uninsured deposits in the Bank of Cyprus were 'taxed' at a somewhat lower rate – 37.5 per cent were initially converted into equity,¹⁰⁵ with the total ultimately rising to 47.5 per cent. In effect, the banking crisis had been recast from a public crisis, which would require the state to raise funds from taxpayers in order to bail out the banking sector, to a private crisis localised to particular banks, with the costs of resolution falling exclusively on their own customers.

4.3.3 | Impacts

Rumblings in the European press about bailing in overseas depositors, particularly wealthy Russians, had already alerted some of the Cypriot banking sector's clientele to the risks they faced.¹⁰⁶ From late 2012 to February 2013, the value of bank deposits in Cyprus fell from circa €80 billion to around €70 billion. A further €7.4 billion of deposits disappeared from bank balance sheets in March 2013, though this will have reflected the haircut imposed by the bail-in as well as capital flight triggered by rumours about the possible terms of the deal.¹⁰⁷ Once the bank levy was announced in mid-March, queues formed at ATMs as Cypriots sought to withdraw whatever they could from their accounts – even though the tax was to be assessed on the basis of deposits as at the time of the initial announcement.

Who paid? The banking levy as originally conceived, with its charge on insured depositors, would have affected a vast swathe of ordinary Cypriot households. Indeed, the perception that Cypriots were to be taxed in order to reduce the levy rate on uninsured foreign depositors was an important factor in mobilising opposition to the levy. By contrast, the restructuring plan only affected 4 per cent of depositors.¹⁰⁸

The levy proposed on 16 March was mildly progressive, with horizontal equity between depositors in different banks. By contrast, the restructuring approach was extremely progressive (most depositors would pay nothing, and a small minority would lose almost everything), but involved arbitrary differences in bail-in charges depending upon whether depositors had placed their funds in Laiki, the Bank of Cyprus, or elsewhere. In the case of both the proposed levy and the actual restructuring, progressivity only applied with regard to individual deposits, not any broader measure of wealth. Both bail-in approaches applied equally to individual and business accounts, meaning that many medium- and large-size firms lost access to their working capital. Perversely, those businesses who had behaved most prudently in the straitened economic environment were penalised the most, as their cash reserves were transformed into illiquid shares in the rescued banks.¹⁰⁹ Different households were thus differently exposed to the bail-in costs, depending not just on how much cash wealth they possessed, but also on where they deposited that money, and whether or not they had invested in relatively cash-rich Cypriot businesses.

What of the international dimension? Precisely how much the restructuring affected the depositors demonised in the north European press is not altogether clear. A report into the Cypriot banking

¹⁰⁴ See Michaelides (2014, p. 675), Apostolides (2013, p. 301) and Theodore and Theodore (2016, p. 92).

¹⁰⁵ Apostolides, 2013; Roland, 2013.

¹⁰⁶ Apostolides, 2013; Orphanides, 2014.

¹⁰⁷ Michaelides, 2014.

¹⁰⁸ Demetriades, 2018.

¹⁰⁹ Apostolides, 2013.

system, co-commissioned by the Troika and the Central Bank of Cyprus, indicated that only 40 per cent of Cypriot bank deposits were owed to Cypriot residents in June 2012, with 34 per cent belonging to Cyprus-based non-residents, 19 per cent originating from Greece, and only 7 per cent from other countries.¹¹⁰ The decline in deposits from June 2012 through to March 2013 reflected a reduction in deposits by both monetary and financial institutions (MFIs) and other individuals and organisations. Although the drawdown was weighted towards MFIs by a ratio of about 2:1,¹¹¹ it seems reasonable to assume that more sophisticated overseas depositors would also have been more likely than most to withdraw their funds over this period. At the same time, the ten largest new shareholders of Cypriot banks created as a result of the bail-in all transpired to be politically exposed Russian and Ukrainian oligarchs,¹¹² which suggests that we should not overstate the extent of capital flight by the intended targets of the restructuring.

Unsurprisingly, the result of businesses losing access to their working capital, as well as the implosion of the Cypriot financial sector (viewed as both an export industry, and as a conduit for credit to domestic households and enterprises), was a severe economic downturn. GDP shrank by 6.6 per cent in 2013 and 1.9 per cent in 2014. Capital controls were kept in place in one form or another for two years after the restructuring¹¹³ to prevent a run on the banks. Nonetheless, deposits did still decline substantially over this period, most markedly among non-residents, and survey evidence from 2014 suggested that households were sceptical about the safety of deposits at Cypriot financial institutions irrespective of whether they had suffered direct losses themselves.¹¹⁴ While the fall in bank deposits by residents bottomed out in 2015, non-resident deposits have fallen consistently year-on-year from 2013 to 2019.¹¹⁵ The restructuring was challenged in a slew of court cases, which took several years to work their way (unsuccessfully) through the European legal system.

Nevertheless, Cyprus' economy, government finances and banking sector did return to growth relatively quickly following the traumatic events of 2013, despite the widely criticised bank levy proposals, and despite (or arguably, in part, because of) a bank restructuring that imposed an even more severe penalty on (some) stocks of wealth held in Cyprus. GDP growth turned positive once again in 2015, and in March 2016 Cyprus exited the EU-mandated adjustment programme early. In January 2017, the Bank of Cyprus successfully listed on the London Stock Exchange.

4.4 | Discussion

Perhaps the most obvious point to note is that one-off wealth taxes introduced in the wake of the global financial crisis have been much more modest in scope than the capital levies that followed WWI and WWII. Both the Irish pension levy and the Icelandic temporary wealth tax raised relatively small amounts of revenue over their lifetimes – in the region of 1 or 2 per cent of GDP in total, substantially less in relative terms than even the French one-off wealth tax of 1945. This was partly because these taxes involved lower rates than has historically been the case, and partly because the tax base was narrower than in capital levies of the past. The Irish pension levy base was broad in that all funded pension schemes were affected, but narrow insofar as the tax charge only applied to pensions, not other forms of wealth. Iceland's temporary wealth tax only affected a small number of taxpayers at a relatively low tax rate (albeit more than double the rate levied by Iceland's previous recurring net wealth tax, abolished in 2006). The levy on bank deposits proposed by the government of Cyprus was

¹¹⁰ PIMCO, 2013, pp. 8–9.

¹¹¹ Michaelides, 2014, p. 664.

¹¹² Demetriades, 2018.

¹¹³ Fox, 2015.

¹¹⁴ Brown, Evangelou and Stix, 2017.

¹¹⁵ Central Bank of Cyprus, 2020.

more ambitious, taxing a broad range of depositors at a comparatively high rate, which would in theory have raised around a third of GDP. However, this levy proved politically impossible to introduce, so in the end the costs of the bailout were raised from a narrower base (circa 4 per cent of depositors) at a much higher ‘rate’, through a bail-in of depositors rather than a levy.

In all three modern-day cases, the tax base was relatively immobile, minimising the risk of capital flight before the charge was introduced. In the case of Cyprus and Iceland, this was achieved through the use of capital controls, which prevented individuals from moving savings and investments to other locations – and in Cyprus specifically, the suspension of banking services associated with the introduction of the policy, which precluded transferring money out of bank deposits and into other asset classes. In the case of Ireland, it would have been difficult for savers to shift money out of their pension schemes, as strict rules and penalties applied to early withdrawal.

Has the levying of these one-off wealth taxes had any lasting impact on taxpayer behaviours? Or do taxpayers behave as if the charges were indeed a one-off? The removal of capital controls in Iceland in 2017 does not appear to have precipitated a sudden dash for the exit. The volume of savings managed by Irish pension funds has expanded rapidly over the last decade, although the proportion of the working-age population covered by voluntary personal and occupational pension plans has fallen slightly.¹¹⁶ In Cyprus, where substantially larger charges were both threatened and imposed upon depositors’ wealth, there was a lasting effect upon banking behaviours, albeit more so among non-residents than residents. It is difficult to discern the extent to which the comparative indifference of wealth holders in Iceland and Ireland is a product of taxpayers in these countries trusting that the wealth taxes introduced post-crisis were indeed one-offs, or simply viewing the impact of such measures as relatively small given the low rate at which the charges in question were levied.

In all three contemporary cases, a fiscal emergency precipitated the taxes in question (or, in the Cypriot case, the tax proposal and the restructuring charges). However, in both Iceland and Ireland, the governments could have opted for other policies to achieve consolidation – the former could have opted for another kind of tax, and latter could have opted to forego public spending on the government’s Job Initiative. Modest one-off wealth taxes can thus be politically acceptable and practicable even in the presence of alternatives. Only in the Cypriot case were alternatives explicitly ruled out by the Troika, ensuring that the money needed had to come from depositors in one form or another.

Interestingly, in both Iceland and Ireland, policymakers opted for a temporary recurring charge rather than a one-off charge paid in instalments. This enabled them to quote lower annual tax rates, which meant that many taxpayers saw these tax costs offset by normal year-to-year increases in the value of the assets in question. Psychologically speaking, a tax that makes you get richer more slowly over several years may be more appealing than one that makes you poorer immediately and then leaves you to prosper, even if the ultimate financial outcomes are the same.¹¹⁷ However, such a strategy means that policymakers must either restrict themselves to taxing relatively immobile forms of wealth (such as pension funds), rely on capital controls (as in the Icelandic case), or else resign themselves to some degree of capital flight.

By contrast, the Cypriot example demonstrates the risks of raising significant amounts from a one-off wealth charge without providing taxpayers with the option of spreading these costs out over time. The sudden loss of capital resulting from the bank restructuring forced many Cypriot businesses to fire staff and reduce investment, while others folded altogether. Even households that had suffered no direct financial loss may have been traumatised by the threat to their savings, and adjusted their saving and consumption behaviours accordingly.¹¹⁸ The 6.6 per cent contraction in Cypriot GDP in 2013 was the largest in the EU by some margin – although it should also be noted that the Cypriot economy did recover relatively quickly thereafter.

¹¹⁶ OECD, 2019.

¹¹⁷ Kahneman and Tversky, 1979.

¹¹⁸ Demetriades, 2018.

Politically speaking, taxing other people remains a popular option for capital levies, as it does for other taxes. In Iceland, the temporary wealth tax was specified in such a way that only a small proportion of the population would be subject to the charge. In Cyprus, public opposition to the broad-based deposit levy that was initially proposed helped to ensure that smaller depositors were exempted from the bail-in approach agreed two weeks later. The costs were thus borne by wealthier depositors, which included a substantial number of businesses and non-residents. Nevertheless, the Irish pension levy serves as a salutary reminder that broader-based one-off taxes on wealth can also be politically viable.

5 | CONCLUSIONS

Confronted by the fiscal costs of the COVID-19 pandemic, there has been a resurgence of interest in one-off wealth taxes.¹¹⁹ Contrary to some earlier scholarship – notably the survey of capital levies by Eichengreen (1989) – the history of one-off wealth taxes is ambivalent; while there are examples of capital levies thwarted by capital flight, there are a number of cases in which such measures raised revenues without provoking massive behavioural changes or political resistance. In particular, post-WWII capital levies proved to be notably more successful than their post-WWI counterparts. Having said that, the post-1945 economic and political environment in Western Europe was peculiarly favourable to the introduction of such charges; monetary reforms meant that some forms of wealth had been recently valued and declared, while the managed capital flows and exchange controls of the Bretton Woods era meant that opportunities for capital flight were limited. Such conditions do not apply today. Nevertheless, a well-designed and well-executed one-off wealth tax, with appropriate exit and entry charges, should limit incentives for fiscal expatriation.¹²⁰ Furthermore, recent developments in international tax cooperation – such as the multilateral exchange of taxpayer information between financial institutions and tax authorities in different jurisdictions – make it harder for individuals to conceal wealth overseas and thus avoid or evade one-off wealth taxes.¹²¹ Nevertheless, to the extent that there remain asset classes and jurisdictions in which wealth can be more readily sheltered, the risk of capital flight and economic distortion persists.

Recent examples of taxes on (certain classes of) wealth demonstrate that forms of one-off wealth taxation can be viable in developed democracies today. Looking at the experience of one-off wealth taxes in the period after the financial crisis, it seems that such charges can make an important contribution to government finances, though these modern temporary and one-off charges have been much more modest in scale and scope than the post-war levies of the 20th century. From a tax design perspective, limiting a one-off charge to particular assets, such as pension savings, and collecting it through institutions rather than through complicated self-assessment procedures, can make administration easier and minimise risks of avoidance and evasion. It is also worth noting that a comparatively modest charge, such as the temporary wealth taxes levied in Iceland and Ireland, appears less likely to provoke behavioural changes (such as fiscal expatriation or changes in saving and investment patterns) that could compromise future tax yields and economic growth.

Put bluntly, one-off wealth taxes are unlikely to pay off government debt burdens in their entirety (and, in any event, paying off ordinary debts may undermine the credibility of government promises that such levies are one-offs). Indeed, a more ambitious one-off wealth tax may be unwise, given the fragile nature of post-pandemic economies and the potential impact on aggregate demand, as well as unnecessary, given the low costs of public borrowing enjoyed by (some) governments. Nevertheless, a well-crafted one-off tax on wealth could help to defray some of the one-off costs associated with

¹¹⁹ Conway, 2020; Kellerhof, 2020; Markovits, 2020; O'Donovan, 2020.

¹²⁰ Advani, Chamberlain and Summers, 2021; Chamberlain, 2021.

¹²¹ Christensen and Hearson, 2019; Perret, 2021.

crises such as the COVID-19 pandemic, as they did some of the costs of the global financial crisis and some of the costs of post-war reconstruction in our case studies. One-off wealth taxes can share the burden of such one-off costs more equitably between generations (particularly if the fiscal response also involves raising taxes or reducing spending on younger people), and may prove less distortionary than other revenue-raising measures. One-off wealth taxes thus offer an interesting alternative (or potentially even complement, as in post-war West Germany) to recurring net wealth taxes, as well as to other tax reforms designed to raise additional revenue and/or redistribute the tax burden among different parts of society.

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